

FISCAL NOTE

SB 671 - HB 769

February 14, 2007

SUMMARY OF BILL: Enacts the "Sales Tax Relief on Food Act of 2007," effective July 1, 2007. Requires the Commissioner of Finance and Administration (F&A), in consultation with the Commissioner of Revenue, to certify, at the close of each fiscal year, the amount of surplus state revenue collected during the preceding fiscal year and notify the Governor, the Speaker of the Senate, the Speaker of the House of Representatives, and the State Treasurer. Requires the surplus be deposited into a new "Sales Tax Relief on Food Fund (FF)" no later than November 1st of each year. Requires periodic transfers from the FF to the General Fund, in increments equal to the amount of revenue generated by one-quarter of one percent (0.25%) of the revenue generated by the sales tax levied on food, whenever the balance in the FF exceeds such an amount. Requires an equivalent rate reduction to the sales tax rate on food whenever such transfers have been made.

ESTIMATED FISCAL IMPACT:

Other Fiscal Impact – For any year in which a surplus occurs in increments of \$20,365,000, and a subsequent transfer of such an amount has been made from the Food Fund to the General Fund, a rate decrease would occur in the following fiscal year lowering the sales tax rate on food by an equivalent percentage sufficient to lower sales tax revenue collections by the same amount transferred. A decrease to state revenues would occur, but in an amount that is very difficult to quantify. Annual estimates are difficult to quantify because they are a direct function of two unknown variables; (1) the specific fiscal year(s) in which surpluses would actually occur, and (2) the extent of any future surplus. Eventually, the state would no longer collect any sales tax revenue from the retail sale of food, currently estimated to be \$488,768,000 per year.

Assumptions:

- According to the Department of Revenue, taxable sales of food and food ingredients in Tennessee for FY05-06 were approximately \$7,753,600,000.
- Based on historical collection patterns, taxable sales of food and food ingredients are estimated to grow by approximately 2.5% per year.

- Taxable sales for FY07-08 are estimated to be approximately \$8,146,126,000.
- The current state sales tax rate on food is 6.0%.
- Total state sales tax collections from food for FY07-08 are estimated to be approximately \$488,768,000 ($\$8,146,126,000 \times 6.0\%$ state rate = \$488,767,560).
- Each 0.25% share of the revenue generated from the 6.0% state sales tax rate on food is approximately \$20,365,000 ($\$488,768,000 \div [6.0\% \div 0.25\%] = \$20,365,333$).
- For any year in which a surplus occurs in increments of \$20,365,000, and a subsequent transfer of such an amount has been made from the FF to the General Fund, a rate decrease would occur in the following fiscal year lowering the sales tax rate on food by an equivalent percentage sufficient to lower sales tax revenue collections by the same amount transferred. A decrease to state revenues would occur, but in an amount that is very difficult to quantify.
- Annual estimates are difficult to quantify because they are a direct function of two unknown variables; (1) the specific fiscal year(s) in which surpluses actually occur, and (2) the extent of any future surplus.
- The state will forgo additional sales tax revenue in subsequent fiscal years due to growth of taxable sales.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director